PACKERS AND STOCKYARDS STATISTICAL REPORT
1995 REPORTING YEAR

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INTRODUCTION

Reporting Firms

This report contains data on (1) slaughtering packers; (2) market agencies buying or selling livestock on commission, including auction markets and selling agencies at terminal stockyards; and (3) livestock dealers buying and selling livestock for their own accounts. It includes data for firms' 1995 reporting year. Part III of this report, Entities Registered with the Grain Inspection, Packers and Stockyards Administration, includes data for the year 1996.

All slaughtering packers operating in commerce in the United States have been subject to the Packers and Stockyards Act since its passage in 1921. The USDA Grain Inspection, Packers and Stockyards Administration (GIPSA) exempts small-volume slaughtering packers from the annual reporting requirement. Prior to reporting year 1977, packers slaughtering less than 1,000 head of cattle or less than 2,000 head of all classes of livestock annually were exempted. Since reporting year 1977, packers that purchase $500,000 or less of livestock annually have been exempt from the bonding and reporting requirements. Thus, the packer statistics in this report do not include exempt packers. Since slaughter volume and the value of purchases vary from year to year, certain small slaughtering packers report in some years but not in others. Packers beginning operation late in the year are not required to file annual reports for a partial year. Also, packers going out of business generally do not file annual reports, except those firms involved in mergers and acquisitions where the information is requested from the acquiring firm.

Data from which the statistics in this report were derived cover the following percentages of 1995 commercial slaughter:

Type	Percent
Steers and heifers	95
Cows and bulls	93
Cattle	95
Calves	90
Hogs	95
Sheep and lambs	96

While plants reporting to GIPSA generally account for more than 90 percent of commercial slaughter in each category, a number of small plants which slaughter livestock are not included in these tables. For example, in 1995, 360 firms operating 487 plants reported to GIPSA. In comparison, on January 1, 1995, there were 968 federally inspected plants and 2,627 non-federally inspected plants. Many non-federally inspected plants, however, operate only as custom slaughterers.

The following table compares plants reporting to GIPSA in 1995 with all federally inspected (F.I.) plants by type of livestock.

Type of livestock	GIPSA coverage < 1,000 head	GIPSA coverage All plants	F. I. plants < 1,000 head	F. I. plants All plants
Cattle	65	279	602	836
Calves	63	133	249	343
Hogs	33	245	485	802
Sheep/lambs	61	98	541	617

Type of Outlet

Prior to 1988, statistics were reported separately for terminals and auctions. Livestock volumes sold through terminals and auctions are now combined and reported as "public markets." These two types of markets can use both private treaty or public outcry (auction) methods of sale. Thus, the sales method difference between the two types of markets is no longer meaningful.

Reporting Year / Calendar Year

In most cases, the calendar year and the reporting year are the same. A majority of meat packers use the calendar year as their fiscal, or operating, year for accounting purposes. Many packers, however, have fiscal years that end in months other than December. The annual data supplied by these packers are included in whichever reporting year includes the end of their fiscal years. Thus, a packer whose fiscal year ends January 31, 1995, would be included in the 1995 reporting year.

Consolidated Reports of Firms

The meatpacking industry has had many mergers and acquisitions in the past several years. Merged firms may or may not file consolidated reports for all their slaughter operations. Since 1980, annual reports filed by separate units of a firm have been combined by GIPSA when reporting firm-level data. Reports are combined when reporting entities are under one firm's management, control, or ownership.

Highlights of the Current Statistical Report

What's New

This report includes 2 new tables of financial information on the top 40 reporting packers. Table 35 is a summary income statement containing a breakdown of expenses and operating income for 1992 through 1995 for the top 4, 8, 20, and 40 packers, as determined by total dollar volume of livestock purchases of all species. Table 36 contains selected financial ratios for the same years and groupings of packers.

Tables 3, 12, and 13 have been changed to make them consistent with other tables in this report. In prior years, these tables contained information broken into 3 groups: the top 10 packers, other packers, and all packers. Beginning this year, the data are reported in the following groups: the top 4 packers, top 8 packers, top 20 packers, other packers, and all packers. Another change in these tables is the criterion used to rank firms. In the past, packers were ranked based on total dressed weight of all animals procured. Beginning this year, packers are ranked by total amount spent for all livestock procured.

Concentration of Meatpacking Firms

The Statistical Report contains two series of four-firm concentration ratios for steers and heifers, cows and bulls, hogs, and sheep and lambs. The first is based on procurement data reported to GIPSA, and includes all livestock procured for slaughter by the top four firms, including livestock that are custom slaughtered for them by other firms. It is reported by the firms for their reporting (fiscal) years, and therefore may include livestock procured in other than the calendar year the concentration ratio represents. The second series is based on slaughter data from federally inspected plants, as recorded in annual data provided by USDA's National Agricultural Statistics Service. It is based on slaughter occurring during the calendar year at plants operated by the top four firms, and includes any custom slaughter done at those plants for other firms. Any livestock custom slaughtered for them by other firms are not included. Both series use the total commercial slaughter for the calendar year as the denominator for calculating concentration ratios.

After rising steadily for several years, concentration in meat packing appears to have plateaued in many categories in 1995, as shown in tables 27 through 34. The four-firm concentration ratio for steer and heifer slaughter, after rising from 36 percent in 1980 to 81 percent in 1994, fell slightly in 1995 to 79 percent (all concentration ratios referred to are the concentration ratios based on procurement data reported to GIPSA, unless otherwise noted). Eight-firm concentration dropped 2 percentage points in 1995, the same amount as the four-firm ratio, indicating that the fifth through eighth ranked firms' shares remained constant. The four-firm concentration ratio based on F.I. slaughter statistics also fell about 1 percentage point in both 1995 and 1996. Medium-sized firms, however, gained market share. Twenty-firm and fifty-firm concentration increased marginally. These gains came at the expense of the four largest firms as well as the smallest firms.

A broader measure of concentration, the Herfindahl–Hirshman Index (HHI),[1] decreased to 1,982 in 1995 for steers and heifers, its lowest level since 1991.

Concentration among cow and bull slaughterers also declined at all levels (see table 28). The largest decline came at the four-firm level, where concentration fell 3 percentage points in 1995, from 26 percent to 23 percent. Concentration at the 8-, 20-, and 50-firm levels dropped by smaller amounts, indicating that firms beyond the top 4 maintained or marginally increased their market shares. In 1995 the HHI fell to 293.

Overall cattle slaughter concentration (see table 29) was largely unchanged in 1995; the 4-, 8-, and 20-firm concentration ratios each fell by less than 1 percentage point, while the 50-firm ratio rose by less than 1 percentage point. The HHI fell slightly to 1,437.

Hog slaughter concentration increased slightly in 1995 (see table 31). Four-firm concentration increased by 1 percentage point and eight-firm concentration increased by 2 percentage points, indi-

[1]The HHI equals the sum of each firm's squared percentage market share. The Department of Justice and Federal Trade Commission, in their 1992 *Horizontal Merger Guidelines*, consider markets to be unconcentrated when the value of the HHI is below 1,000; moderately concentrated when HHI is between 1,000 and 1,800; and highly concentrated when HHI is above 1,800.

cating that the market shares of the groups of firms ranked one through four and five through eight each rose 1 percentage point. The HHI increased to 754.

There was, however, a large increase in four-firm concentration in 1996, as reported in the concentration based on F.I. slaughter. This increase, from 46 percent to 56 percent, is largely due to the acquisition of John Morrell & Co. by Smithfield Foods, Inc., at the end of 1995 (see the table of Mergers and Acquisitions in Meat Packing at the back of this section).

Plant Size

In 1995, the overall number of packing plants for each species continued to fall (see table 19), but the number of plants in the largest size categories remained steady (see tables 20 through 26). There were two exceptions. The first was for cows and bulls (see table 21), where the number of plants in the largest category increased from 12 to 17, while the number of plants in the second largest category fell by 1 plant. The second exception was for hogs (see table 24), where the number of plants in the largest category (plants slaughtering more than 1 million hogs per year) fell from 33 to 31. However, total slaughter in the largest category increased from 77.7 million hogs in 1994 to 79.2 million hogs in 1995.

Use of Public and Nonpublic Marketing Channels

The proportion of slaughter animals purchased through public markets has declined during the past 2 decades. In 1995, however, the proportion of cattle, hogs, and sheep and lambs bought in public markets held roughly steady, and the proportion of calves bought in public markets increased substantially, from 18 percent to almost 25 percent (see table 2). The eight largest packers increased their use of public cattle markets (see table 3), purchasing 3.5 percent of their total procurement through public channels in 1995. For comparison, the 10 largest packers purchased 2.4 percent of their total cattle procurement through public markets in 1994.

There is regional variation in the use of public marketing channels for cattle. In 1995, packers in the South Atlantic region purchased nearly 73 percent of their cattle through public markets, while packers in each of the three largest cattle-producing regions (West North Central, South Plains, and Mountain) used public markets for less than 8 percent of their procurement (see table 7). Hog slaughterers show much less regional variation in methods of procurement, and much lower use of public markets. Packers in only two of the eight regions procured more than 10 percent of their hogs through public markets. Packers in the South Plains procured half (51 percent) of their hogs through public markets in 1995, and packers in the North Atlantic area used public markets for 13 percent of their purchases.

Carcass-Basis Procurement

The proportion of livestock purchased on a grade and weight carcass basis (grade, weight, yield, guaranteed yield, or a combination thereof) ranged between 40 and 50 percent in 1995 (see tables 11 and 12). The percentage of cattle and sheep and lambs purchased on a carcass basis in 1995 was about the same as in 1994. The percentage of calves purchased on a carcass basis fell by nearly 10 percentage points in 1995 to 51 percent, while the percentage of hogs bought on a carcass basis increased by more than 10 percentage points in 1995 to 43 percent. The eight largest packers' increased use of carcass-basis purchasing of hogs caused most of this increase. In 1995, the eight largest packers purchased more than half their hogs (52.4 percent) on a carcass basis.

Packer Feeding

Packer feeding of most species of livestock remains little used (see tables 13 and 14). Overall, only 3.6 percent of steers and heifers and 3 percent of all cattle were packer-fed in 1995. Packer feeding of hogs is even less common, accounting for slightly more than 1 percent of all procurement. However, several hog packers are engaged in joint venture feeding operations that are not included in this report. It is only in calves and sheep and lambs that packer feeding accounts for a significant proportion of slaughter animals. In 1996, packer feeding accounted for almost 12 percent of calves and 17 percent of sheep and lambs procured for slaughter.

Table 16 provides information on the use of packer feeding and acquisition through forward contracts and marketing agreements for the 4 and 15 largest steer and heifer slaughterers, based on data obtained through a supplemental annual survey of the firms by GIPSA. The top 4 and top 15 firms used packer feeding to a slightly lesser extent than smaller firms (3.4 and 3.3 percent, respectively, versus 3.6 percent for all firms). Both the top 4 and top 15 firms used forward contracts and marketing agreements for about 19 percent of their total steer and heifer procurement in 1996. Total procurement by all these methods for both the top 4 and the top 15 packers in 1995 was the highest percentage of total purchases since 1989.

Packer Financial Performance

New for this year, tables 35 and 36 present financial ratios for several groupings of the 40 largest meatpacking firms for the years 1992 through 1995. Firms are ranked by total procurement spending for livestock each year. The firms included in a particular group may change from year to year.

The financial information in these tables comes from firms that engage primarily in livestock slaughter, firms that engage in considerable further processing, and also firms that have large non-red meat operations. Often the latter types of firms filed financial statements for their red meat operations only. However, a few filed consolidated financial statements; their meatpacking and processing operations are not separated from their other operations.

Firms in all categories increased their profitability over the period. Operating income as a percentage of sales for the top 40 packers tripled between 1992 and 1995, rising from 1.23 percent to 3.69 percent. Operating income as a percentage of sales for the top four firms improved even more dramatically, increasing more than six-fold from 0.54 percent to 3.33 percent during the period (see table 35). Operating income as a percentage of assets and as a percentage of equity for the 40 largest packers both doubled over the period (see table 36).

By most measures, smaller firms were more profitable than larger firms. In almost every case, the top 4 and top 8 firms reported lower profitability than the top 20 and top 40 firms, as measured by operating income either per dollar of sales, assets, or equity. Only in 1995 do the 4 and 8 largest firms show higher profitability than the top 20 and top 40 firms, and then not by all 3 measures.

For most years, the four largest firms reported the lowest total operating expenses, expressed per dollar of sales or equity. The four largest firms also appeared to use their assets most efficiently. The top four firms' net sales per dollar of assets were higher than any other group (except for the top eight firms in 1992). The top four firms were also the least leveraged. Their equity to asset ratio was the largest of any of the groups, indicating a lower level of debt financing than smaller firms.

Mergers and Acquisitions in Meat Packing

There have been numerous mergers and acquisitions in meat packing in the last several years. The following table lists mergers and acquisitions in 1995 and 1996 involving firms that reported to GIPSA. In most cases the transactions involved the purchase of entire firms. However, some transactions, which are noted, included only plants and/or brands.

Meat Packer Mergers and Acquisitions, 1995 – 96

1995

Acquiring Company: IBP, Inc.; Dakota City, NE.
Company Acquired: W-B Acquisition Co., doing business as Braunfels Meats; Sealy, TX.

Acquiring Company: IBP, Inc.; Dakota City, NE.
Company Acquired: Gibbon Packing Company; Gibbon, NE, from Sterling Capital Ltd.

Acquiring Company: Smithfield Foods, Inc.; Smithfield, VA.
Company Acquired: John Morrell & Co., from Chiquita Brands International; Cincinnati, OH.

1995, cont.

Acquiring Company: Cargill, Inc. (Excel); Wichita, KS.
Company Acquired: Marshall, MO, pork plant from Tyson Foods Inc., in exchange for its broiler operations.

Acquiring Company: Hatfield Quality Meats; Hatfield, PA.
Company Acquired: Medford Foods; Chester, PA.

Acquiring Company: Lypsis and Company, LLC.
Company Acquired: Berliner and Marx, from ConAgra, Inc. (Sale completed in 1996).

Acquiring Company: Kenosha Beef International, Ltd.; Kenosha, WI.
Company Acquired: Lee Meats, Inc.; Alma, GA.

1996

Acquiring Company: IBP, Inc.; Dakota City, NE.
Company Acquired: Vernon Calhoun Cattle Co.; Palestine, TX.

Acquiring Company: Emmber Foods; Milwaukee, WI.
Company Acquired: Wisconsin Packing Co.; Butler, WI.

Acquiring Company: Smithfield Foods, Inc.; Smithfield, VA.
Company Acquired: Lykes Meat Group; Tampa, FL.

Acquiring Company: Packerland Packing Co.; Green Bay, WI.
Company Acquired: Sun Land Beef; Tolleson, AZ.

1996, cont.

Acquiring Company: Keystone Foods; Bala Cynwyd, PA.
Company Acquired: Shapiro Packing Company; Augusta, GA.

Acquiring Company: Farmland Foods, Inc.; Kansas City, MO.
Company Acquired: FDL Foods, Inc.; Dubuque, IA.